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DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D. C.

#178

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REPLY TO:

Auditor General
Comptroller, USAF
Hq Western District
1206 Maple Avenue (Room 916)
Los Angeles 15, California

17 July 1958

SUBJECT: Report on System Survey
Itek Corporation
Boston, Massachusetts

TO: Contracting Officer

1. A survey was made of the contractor's internal controls and accounting practices. Inasmuch as a system survey had been conducted by the Air Force Auditor General, Boston Branch, during the period 28 March 1958 to 4 April 1958, our survey included a review of their working papers and audit report dated 7 April 1958, as well as other procedures considered necessary in the circumstances.

2. In our opinion, the contractor's accounting records, methods, and procedures are generally considered adequate for determination of costs under this project, subject to satisfactory compliance with the following:

a. Recommendations of Air Force Auditor General, Boston Branch, on Contractor's Statement of Accounting Policy and Procedure: See Schedule 1.

b. Other Areas not Covered by Accounting Policy and Procedure Manual and Manual of Purchasing Procedures which Require Further Written Implementation: See Schedule 2.


3. The opinion stated in paragraph 2 is subject to the findings of any subsequent resurveys which may be made with respect to whether or not prescribed procedures are being followed under this project. We understand that the contractor, because of the security aspects of the program, is contemplating setting up separate detail records and subsidiary books of account.

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#178, subj: Rept on Sys Survey, Itek Corp., Boston, Mass., 17 Jul 58 - (cont'd)

4. The findings of the Air Force auditor were discussed on 3 July 1958, with Mr. J. X. Cousins, Vice-President and Treasurer, who agreed to develop the necessary data.

5. It is recommended that a copy of this report be furnished to the contractor accompanied by a request to them for the estimated date when satisfactory compliance may be effected.


Project Supervisor
Western District
Auditor General

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Schedule 1

Page 1 of 2 pages

Itek Corporation
Boston, Massachusetts



Recommendations of Air Force Auditor General, Boston Branch, on
Contractor's Statement of Accounting Policy and Procedure
(Not Yet Effected by Contractor)

- a. Inventories - Page 3: Office and operating supplies, if significant, should be inventoried at least annually to determine amounts actually expensed.
- b. Fixed Assets - Page 4: The contractor should state its policy with respect to the number of years of life expectancy it intends to use in determining the depreciation rates of the various classes of plant property and equipment.
- c. Expenses - Page 10:
 - (1) Redistributable Pool. The basis for allocating common items (rent, heat, light, power, taxes, etc.) to other expense pools should be stated.
 - (2) General and Administrative Expense. The basis selected for prorating general and administrative expense has not been declared by the contractor.
- d. Company Sponsored Research and Development - Page 13: It is the contractor's written policy to charge currently to operations (overhead) the cost of company-sponsored basic research, applied research and development projects - such costs to include labor, materials, and other allocable charges.

Inasmuch as the contractor's independent research and development projects employ the same personnel and facilities as are used in the performance of Government contracts, the same accounting procedures should be followed by the contractor in the determination of the cost of company-sponsored research and development as are used to determine costs under Government contracts. The labor incident to the contractor's independent research and development projects should be added to the labor base for the determination of the overhead rate, and should absorb its proportionate share of the overhead. The aggregate cost of such projects should include all elements of cost, including labor, materials, other direct charges, overhead, and general and administrative expense.
- e. Assigned Projects - Page 14: The contractor should specifically identify those items of cost, other than direct labor and direct materials, which it intends to charge directly to the various projects. Such items should not be similar to items normally treated as indirect expense.

Schedule 1
Page 2 of 2 pages

Itek Corporation
Boston, Massachusetts

Recommendations of Air Force Auditor General, Boston Branch, on
Contractor's Statement of Accounting Policy and Procedure
(Not Yet Effected by Contractor)

f. Travel Policies - Page 18: The contractor has established per diem allowances of \$8.00 for occasional travel and \$6.00 for extended travel (travel covering more than 30 days). These per diem allowances cover only living expense other than room expense. Such per diem rates, when combined with unlimited actual room expense, will, in general, exceed the per diem rate limitations set forth in AFPI 15-204(W)(6).

It is recommended that the contractor be requested to establish a schedule of per diem rates, including allowance for room expense, which are not in excess of those specified in AFPI 15-204(W).

Schedule 2

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Itek Corporation
Boston, Massachusetts



Other Areas not Covered by Accounting Policy and Procedure Manual and
Manual of Purchasing Procedures which Require Further Written Implementation

- a. Form and content of Proposed Inventory Records (Stock Record Cards, Requisitions, Stores Credit, etc.) to be used for contractor-acquired materials.
- b. Revised overhead rate structure subsequent to merger with Vectron Corporation.
- c. Policy with respect to scrap disposal credits.
- d. Debit memo procedure.
- e. Matching of Vendors' Invoices with Purchase Orders by Accounting Department. (Formerly performed by Purchasing Department.)
- f. Use of Bid Tabulation Forms.
- g. Use of the following clause for sole-source procurements under Government contracts:

"The vendor certifies that the prices charged herein are not in excess of what they are charging others for the same items in similar quantities."